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BreadTalk: Managing an expanding brand portfolio

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BREADTALK: MANAGING AN EXPANDING BRAND PORTFOLIO

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The Singapore-based company has expanded into foodcourts and restaurants in 17 countries. How can it manage its burgeoning portfolio of brands?

For the financial year ended December 31 2015, Singapore-based food conglomerate BreadTalk Group Limited posted S$624 million (approx. US$450 million) in revenues, an improvement of 5.9 percent year-on-year. That translated to an EBITDA (earnings before interest, taxes, depreciation and amortisation) of S$78 million, up 9.3 percent year-on-year. While asset write-offs and goodwill impairment hit the bottom line (S$7.6 million, down 65.7 percent year-on-year), the company expects to stay in the black in the next financial year.

Given the stable of brands it operates, the optimism is perhaps justified. It expanded its number of outlets to 957 from 914 in 17 countries, including extending the reach of its eponymous main bakery brand, to running the Singapore franchise of the Taiwanese Michelin-starred restraurant Din Tai Fung (鼎泰豐). Its foodcourt business, Food Republic, operates in six countries, while the company continues to diversify in China with the Carl's Jr. burger chains in Shanghai and Nanjing.

The sheer size of the Chinese market despite the impending slowdown makes it a main area of focus for the company. 460 of BreadTalk's 957 outlets are in China, which accounts for a similar proportion of its bakery division (426 of 862).

Whereas BreadTalk's bakeries in Singapore are designed for grab-and-go consumption – and therefore saving on renting space for eat-in customers – Chinese customers prefer to enjoy their confections in a café setting, often ordering an accompanying beverage. As a result, BreadTalk stores in China are considerably bigger, between 1000 to 2000 square feet compared to 700 square feet in Singapore.

EXPANSION LESSONS

Although the positioning of the BreadTalk brand is the same in every country – as a lifestyle product – the bakery chain adapted its product range in each market to suit local tastes and requirements. BreadTalk's unique selling point was its ability to change, localise and adapt.

Pricing was also different, depending on the market's propensity to spend. For example, even though the purchasing power in Shanghai was strong, starting prices were kept 10 to 15 percent lower than in Singapore. The company targeted locals who could appreciate a foreign brand and were willing to spend. Over time, the prices were brought to par with Singapore.

While the franchise model was an immediate success in some countries such as Indonesia and China, it proved to be challenging in some other markets. The key was to find a franchisee that shared the mind-set and culture of BreadTalk.

"Our brand reputation is very important for us," explains **Joyce Koh**, senior vice president of brand development at Bread Talk. "Some franchisees tend to be more profit-oriented, and less service-oriented. They may take short-cuts to run the business. This is not acceptable to us."

BreadTalk first forayed out of Singapore in 2003 when founder **George Quek** decided on a franchise arrangement in Indonesia with Johnny Andrean, the owner of a large chain of hair salons. Given the options available to Quek it was a somewhat surprising choice, but he chose Andrean after the latter promised to work on BreadTalk full-time.

The results were spectacular. The monthly sales of the first outlet in Jakarta touched S$300,000, higher than that compared to the revenue per store in Singapore. This was despite the fact that the prices in Jakarta were 10 to 15 percent lower than in Singapore. From Jakarta, BreadTalk expanded into many other cities across the Indonesian archipelago such as Java, Bali, Sumatra, Kalimantan and Yogyakarta.

By the end of 2012, BreadTalk had close to 100 stores in Indonesia. The success in its first foreign market served as a key learning for subsequent ventures – it was important to find a committed and resourceful partner who had an understanding of the local market.

THE ROAD AHEAD

BreadTalk's regional expansion has been complemented by brand expansion with the creation of flanker brands such as Toast Box, a sit-down coffeeshop offering, and Thye Moh Chan, which specialises in traditional Chinese confectionery. In its restaurant business, it collaborated with Japanese restaurant chain Sanpou Group in 2009 to create the RamenPlay brand, which currently has six stores in Singapore and four in Shanghai.

Its foodcourt business, however, is expected to weigh on Group earnings. In its latest financial statement, the company said it "continues to see operational challenges from the slowdown in Mainland China, translating to weaker footfalls in the shopping malls where our outlets operate". Looking forward, BreadTalk describes its outlook thus:

"FY2015 has been a challenging year for the Group. Heading into FY2016, the Group will refine our current operating models with a view to realising profitability through cost rationalisation and increased productivity. The Group will also see our brands – BreadTalk, Toast Box and Food Republic in the upcoming iconic Shanghai Disney Resort project when it opens around June 2016."

What next for BreadTalk? International growth meant new challenges for the brand. Successes at home didn't always translate into successes abroad. Was BreadTalk's business model and brand positioning equipped to identify and address the risks associated with global brand management? Should it focus on its core competency and brand, or should it look to develop and aggressively promote other brands?